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Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Teachers' Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2005 and 2004, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information of management's discussion and analysis on pages 15 to 21 and schedules of funding progress and employer contributions on pages 47 to 53 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 54 and 55 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The investment, actuarial and statistical data on pages 57 through 99 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

September 30, 2005, except as to note 7,
which is as of October 28, 2005

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)**

Management's Discussion and Analysis

June 30, 2005 and 2004

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (Plan) financial position and performance for the years ended June 30, 2005 and 2004. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary, and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2005 and 2004. Information for fiscal year 2003 is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by \$4,026,995,000 and \$3,911,515,000 at the close of fiscal years 2005 and 2004, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2005 and 2004 increased by \$115,480,000 or 3.0% and increased by \$308,896,000 or 8.6% over the closing balances of those assets in fiscal years 2004 and 2003, respectively.

Plan member and employer contributions received totaled \$149,533,000 and \$126,057,000 during fiscal years 2005 and 2004; an increase of \$23,476,000 and \$7,412,000 or 18.6% and 6.2% from fiscal years 2004 and 2003, respectively.

Net investment income decreased from \$513,964,000 to \$327,426,000 during fiscal year 2005 and increased from \$111,575,000 to \$513,964,000 during fiscal year 2004; reflecting a decrease of (36.3%) and increase of 360.6% from fiscal years 2004 and 2003, respectively.

Pension benefit and postemployment healthcare payments totaled \$355,084,000 and \$331,010,000 during fiscal years 2005 and 2004, respectively; reflecting an increase of \$24,074,000 and \$20,594,000 or 7.3% and 6.6% from fiscal years 2004 and 2003, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total amount of liabilities. The Statement of Plan Net Assets classifies assets, liabilities, and net assets as current, noncurrent, and restricted.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income, operating expenses, and transfers.

The above statements represent resources available for investment and the payment of benefits as of the fiscal year-end and the sources and uses of those funds during the fiscal year.

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Management's Discussion and Analysis

June 30, 2005 and 2004

Notes to the Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status of the Plan and actuarial assumptions and methods used in the actuarial valuation.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment expenses incurred by the Plan and payments to consultants for professional services.

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Management's Discussion and Analysis

June 30, 2005 and 2004

Condensed Financial Information

NET ASSETS (000's omitted)					
Description	2005	2004	Increase/Decrease		2003
			Amount	%	
Assets:					
Cash and receivables	\$ 4,695	6,475	(1,780)	(27.5)%	6,849
Securities lending collateral	308,847	464,744	(155,897)	(33.5)	468,380
Investments, at fair value	4,025,669	3,908,306	117,363	3.0	3,598,476
Other assets	48	61	(13)	(21.3)	88
Total assets	<u>4,339,259</u>	<u>4,379,586</u>	<u>(40,327)</u>	<u>(0.9)</u>	<u>4,073,793</u>
Liabilities:					
Accrued expenses	2,870	3,288	(418)	(12.7)	2,794
Securities lending collateral payable	308,847	464,744	(155,897)	(33.5)	468,380
Other liabilities	547	39	508	1,302.6	-
Total liabilities	<u>312,264</u>	<u>468,071</u>	<u>(155,807)</u>	<u>(33.3)</u>	<u>471,174</u>
Total net assets	<u>\$4,026,995</u>	<u>3,911,515</u>	<u>115,480</u>	<u>3.0%</u>	<u>3,602,619</u>

CHANGES IN NET ASSETS (000's omitted)					
			Increase/Decrease		
			Amount	%	
Net assets, beginning of year	\$3,911,515	3,602,619	308,896	8.6%	3,689,036
Additions:					
Contributions	149,533	126,057	23,476	18.6	118,645
Net investment income	327,426	513,964	(186,538)	(36.3)	111,575
Other additions	10	77	(67)	(87.0)	14
Transfer in from Retiree Health Fund	-	6,200	(6,200)	(100.0)	-
Total additions	<u>476,969</u>	<u>646,298</u>	<u>(169,329)</u>	<u>(26.2)</u>	<u>230,234</u>
Deductions:					
Benefits	355,084	331,010	24,074	7.3	310,416
Refunds	4,376	4,189	187	4.5	3,840
Administrative expenses	2,029	2,203	(174)	(7.9)	2,395
Total deductions	<u>361,489</u>	<u>337,402</u>	<u>24,087</u>	<u>7.1</u>	<u>316,651</u>
Increase (decrease) in net assets	<u>115,480</u>	<u>308,896</u>	<u>(193,416)</u>	<u>(62.6)</u>	<u>(86,417)</u>
Net assets, end of year	<u>\$4,026,995</u>	<u>3,911,515</u>	<u>115,480</u>	<u>3.0%</u>	<u>3,602,619</u>

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Management's Discussion and Analysis

June 30, 2005 and 2004

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2005 and 2004 showed total assets exceeding total liabilities by \$4,026,995,000 and \$3,911,515,000. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits." The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of \$115,480,000 or 3.0% and a decrease of \$308,896,000 or (8.6%) from fiscal years 2004 and 2003. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives. During fiscal year 2005, ASPIB adopted an asset allocation that includes 36% in domestic equities, 15% in international equities, 24% in domestic fixed income, 2% in international fixed income, 9% in real estate, 6% in private equity, 2% in high yield, 3% in absolute return, and 3% in other. This asset allocation is expected to provide a five year median return of 7.84%.

For fiscal years 2005 and 2004, the Plan's investments generated a 9.01% and a 15.09% rate of

return, respectively. The Plan's annualized rate of return was 9.16% over the last three years and 3.06% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The employer contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2005 and a fixed amortization of the unfunded accrued liability. The amortization period is set by the Teachers' Retirement Board. Employer contribution levels are recommended by the Actuary and adopted by the Board each year. Increasing healthcare costs continued to impact the Plan's funding ratio. The ratio of assets to liabilities was 64.3%, using June 30, 2003, net assets as a base (the date of the Plan's latest actuarial valuation report). The goal for the Plan is to make progress toward achieving the funding objectives of the Plan.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

	Valuation Year (000's omitted)	
	2003	2002
Valuation assets	\$ 3,752,285	3,689,036
Accrued liabilities	5,835,609	5,411,642
Funding ratio	64.3%	68.2%

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Management's Discussion and Analysis

June 30, 2005 and 2004

Contributions and Investment Income

The revenues required to finance retirement benefits are accumulated through a combination of employer and plan member contributions and investment income.

	Revenues (000's omitted)				
	2005	2004	Increase/(Decrease)		2003
			Amount	Percent	
Plan Member Contributions	\$ 55,993	57,365	(1,372)	(2.4)%	55,789
Employer Contributions	93,540	68,692	24,848	36.2	62,856
Net Investment Income	<u>327,426</u>	<u>513,964</u>	<u>(186,538)</u>	<u>(36.3)</u>	<u>111,575</u>
Total	<u>\$476,959</u>	<u>640,021</u>	<u>(163,062)</u>	<u>(25.5)%</u>	<u>230,220</u>

Employer contributions increased from \$68,692,000 in fiscal year 2004 to \$93,540,000 during fiscal year 2005, an increase of \$24,848,000 or 36.2%. Employer contributions increased from \$62,856,000 during fiscal year 2003 to \$68,692,000 during fiscal year 2004, an increase of \$5,836,000 or 9.3%. The employer contribution rate increased from 12% in fiscal year 2004 to 16% in fiscal year 2005. Increases experienced in fiscal year 2005 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2002 (the valuation used to set fiscal year 2005 employer contribution rates). Increases experienced in fiscal year 2004 are due to normal differences between actual experience and experience assumed in the valuation.

Investment income in fiscal year 2005 decreased by \$186,538,000 or (36.3%) from amounts recorded in fiscal year 2004. Investment income in fiscal year 2004 increased by \$402,389,000 or 360.6% from amounts recorded in fiscal year 2003. Changes in both years are due to the performance of the equity markets. Returns in these markets in fiscal year 2004 were in excess of 20% compared to a negative return in fiscal year 2003. Likewise, returns in these markets in fiscal year 2005 were back in the 4.5% range for domestic securities and 15% range for international securities. The Plan's investment in equities represent more than 50% of total investments.

Over the long term, the investment portfolio has been a major component in additions to plan assets. During fiscal year 2005, the Plan continued to record significant rates of return on investments. The Plan's rate of return for fiscal year 2005 was 9.01%. The rate of return used in the actuarial valuation report to determine liabilities of the plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the second consecutive year.

During 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund, the result was an excess computed amount of net assets not specifically identified for other reserves. The excess amount of \$20,000,000 was moved back to the respective retirement system. In fiscal year 2004, the Plan recognized a transfer of \$6,200,00 from the Retiree Health Fund.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM (A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2005 and 2004

Benefits, Refunds, and Expenses

The primary expense of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump sum refunds made to former plan members, and the cost of administering the Plan comprise the costs of operation.

	Expenses				
	(000's omitted)				
			Increase/(Decrease)		
	2005	2004	Amount	%	2003
Pension Benefits	\$ 269,414	255,409	14,005	5.5%	244,518
Healthcare Benefits	85,670	75,601	10,069	13.3	65,898
Refunds of Contributions	4,376	4,189	187	4.5	3,840
Administrative Expenses	2,029	2,203	(174)	(7.9)	2,395
Total	\$ 361,489	337,402	24,087	7.1%	316,651

Pension benefit payments in 2005 and 2004 increased \$14,005,000 and \$10,891,000 or 5.5% and 4.5% from fiscal years 2004 and 2003, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. The Plan's board did not grant a discretionary cost-of-living (ad hoc post retirement pension adjustment [ad hoc PRPA]) increase for fiscal year 2005.

Postemployment healthcare benefits in 2005 and 2004 increased \$10,069,000 and \$9,703,000 or 13.3% and 14.7% from fiscal years 2004 and 2003, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year and the increase is also directly related to the increased number of retirees in the Plan.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on the Plan's investments.

- Employer contributions are determined by the Plan's consulting actuaries and approved by the Plan's governing board.
- Plan member contributions are established by Alaska statute.
- The ASPIB works with an external consultant to determine the proper asset allocation strategy.

Legislation

During the fiscal year 2005 legislative session, two laws were enacted that affect the Plan:

House Bill 161 – An Act relating to reemployment of and benefits for retired teachers and public employees and to teachers or employees who participated in retirement incentive programs and are subsequently reemployed as a commissioner; and providing for an effective date.

Senate Bill 141 – An Act creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2006; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; and providing for an effective date.

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Management's Discussion and Analysis

June 30, 2005 and 2004

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

Overall, the Plan's investments returned 9.01% for the year. The Plan did exceed its' actuarially assumed investment return of 8.25% for the second consecutive year. Even with the real investment returns exceeding the actuarial rate of return, the Plan will most likely continue to see an increase in employer contribution rates.

The financial market environment continues to challenge investors. With the threat of inflation, interest rate increases by the Federal Reserve Bank, and continued turmoil in the Middle East, many forces once again pose challenges to Plan investments. ASPIB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The impact of fiscal year 2001 and 2002's decline on the Plan's market value, returns less than the actuarial rate of return in fiscal year 2003, and the additional impacts of increasing healthcare premiums paid to the Retiree Health Fund continue to weigh on the Plan's funding ratio and the employer contribution rates. Typically, when the Plan earns less than the actuarial rate of return or experiences costs in excess of those assumed, the effect is an increase to the employer contribution rate. This was the case in fiscal year 2003, which impacts the Plan's funding status as of June 30, 2003, as well as

the fiscal year 2005 employer contribution rate. Due to investment deficiencies, salary increases exceeding valuation assumptions, demographic experiences greater than valuation assumptions, and the contribution shortfall compared to the actuarially calculated rate, the June 30, 2003, actuarial valuation report for the Plan reported a funding ratio of 64.3%, down from fiscal year 2002's funding ratio of 68.2%.

The consulting actuary recommended an increase from the calculated employer contribution rate of 35.57% in fiscal year 2005 to 38.85% in fiscal year 2006. The TRS board adopted an employer contribution rate of 21% for fiscal year 2006, up 5 points from the fiscal year 2005 employer contribution rate of 16%. However, even with the 5 point increase, employers are paying only a little over one-half of the "Total Employer Contribution Rate" of 38.85% in fiscal year 2006.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Teachers' Retirement System, Division of Retirement and Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)
Statements of Plan Net Assets
June 30, 2005 and 2004
(000's omitted)**

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 5):						
Short-term fixed income pool	\$ 428	157	585	415	108	523
Securities lending collateral	225,998	82,849	308,847	368,662	96,082	464,744
Total cash and cash equivalents	226,426	83,006	309,432	369,077	96,190	465,267
Receivables:						
Contributions	3,008	1,102	4,110	4,722	1,230	5,952
Total receivables	3,008	1,102	4,110	4,722	1,230	5,952
Investments (notes 3, 4, 5 and 7):						
Domestic equity pool	1,420,291	120,279	1,540,570	1,311,697	263,747	1,575,444
Domestic fixed income pool	662,788	242,972	905,760	845,912	220,463	1,066,375
International equity pool	450,569	165,174	615,743	509,739	132,850	642,589
Real estate pool	282,974	103,735	386,709	234,721	61,173	295,894
International fixed income pool	109,180	40,025	149,205	112,745	29,384	142,129
Private equity pool	129,882	47,613	177,495	101,990	26,581	128,571
Emerging markets equity pool	52,832	19,368	72,200	42,366	11,041	53,407
Other investment pools	10,862	3,982	14,844	3,091	806	3,897
High yield pool	47,363	17,363	64,726	-	-	-
Absolute return pool	72,016	26,401	98,417	-	-	-
Total investments	3,238,757	786,912	4,025,669	3,162,261	746,045	3,908,306
Loans and mortgages, net of allowance for loan losses of \$29 in 2005 and \$30 in 2004	35	13	48	48	13	61
Total assets	3,468,226	871,033	4,339,259	3,536,108	843,478	4,379,586
Current liabilities:						
Accrued expenses	2,100	770	2,870	2,608	680	3,288
Securities lending collateral payable (note 5)	225,998	82,849	308,847	368,662	96,082	464,744
Due to State of Alaska General Fund	401	146	547	31	8	39
Total liabilities	228,499	83,765	312,264	371,301	96,770	468,071
Commitments and contingencies (note 7)						
Net assets held in trust for pension and postemployment healthcare benefits	\$ 3,239,727	787,268	4,026,995	3,164,807	746,708	3,911,515

(Schedules of funding progress are presented on pages 47 and 48.)

See accompanying notes to financial statements.

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)**

Statements of Changes in Plan Net Assets

**Years ended June 30, 2005 and 2004
(000's omitted)**

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	\$ 68,448	25,092	93,540	54,492	14,200	68,692
Plan members	<u>40,973</u>	<u>15,020</u>	<u>55,993</u>	<u>45,505</u>	<u>11,860</u>	<u>57,365</u>
Total contributions	<u>109,421</u>	<u>40,112</u>	<u>149,533</u>	<u>99,997</u>	<u>26,060</u>	<u>126,057</u>
Investment income:						
Net appreciation in fair value of investments (note 3)	159,596	58,507	218,103	322,858	84,144	407,002
Interest	42,892	15,725	58,617	47,863	12,475	60,338
Dividends	<u>48,485</u>	<u>17,773</u>	<u>66,258</u>	<u>47,238</u>	<u>12,311</u>	<u>59,549</u>
Total investment income	250,973	92,005	342,978	417,959	108,930	526,889
Less investment expense	<u>11,380</u>	<u>4,172</u>	<u>15,552</u>	<u>10,253</u>	<u>2,672</u>	<u>12,925</u>
Net investment income	239,593	87,833	327,426	407,706	106,258	513,964
Other	7	3	10	61	16	77
Transfer in from Retiree Health Fund (note 6)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,200</u>	<u>6,200</u>
Total additions	<u>349,021</u>	<u>127,948</u>	<u>476,969</u>	<u>507,764</u>	<u>138,534</u>	<u>646,298</u>
Deductions						
Benefits	269,414	85,670	355,084	255,409	75,601	331,010
Refunds of contributions	3,202	1,174	4,376	3,323	866	4,189
Administrative expenses	<u>1,485</u>	<u>544</u>	<u>2,029</u>	<u>1,748</u>	<u>455</u>	<u>2,203</u>
Total deductions	<u>274,101</u>	<u>87,388</u>	<u>361,489</u>	<u>260,480</u>	<u>76,922</u>	<u>337,402</u>
Net increase	74,920	40,560	115,480	247,284	61,612	308,896
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	<u>3,164,807</u>	<u>746,708</u>	<u>3,911,515</u>	<u>2,917,523</u>	<u>685,096</u>	<u>3,602,619</u>
Balance, end of year	<u>\$3,239,727</u>	<u>787,268</u>	<u>4,026,995</u>	<u>3,164,807</u>	<u>746,708</u>	<u>3,911,515</u>

See accompanying notes to financial statements.

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)**

Notes to Financial Statements

June 30, 2005 and 2004

(1) DESCRIPTION

The following brief description of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is a defined benefit, cost-sharing, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, the number of participating local government employers was:

	<u>2005</u>	<u>2004</u>
State of Alaska	1	1
School districts	53	53
Other	<u>4</u>	<u>4</u>
Total employers	<u>58</u>	<u>58</u>

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska, and State Department of Education employees who meet the eligibility requirements

for participation in the Plan. At June 30, the dates of the two most recent actuarial valuations, Plan membership consisted of:

	<u>2003</u>	<u>2002</u>
Retirees and beneficiaries currently receiving benefits	8,312	7,804
Terminated plan members entitled to future benefits	<u>708</u>	<u>783</u>
	<u>9,020</u>	<u>8,587</u>
Current plan members:		
Vested	5,289	5,224
Nonvested	<u>4,584</u>	<u>4,466</u>
	<u>9,873</u>	<u>9,690</u>
	<u>18,893</u>	<u>18,277</u>

Pension Benefits

Vested employees hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest contract years' salaries.

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Notes to Financial Statements

June 30, 2005 and 2004

The benefit related to all years of credited service prior to July 1, 1990, and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

The Plan has two types of post-retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, (2) employees hired after July 1, 1990, with 25 years of membership service, and (3) employees who are disabled or age sixty or older,

regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the Plan member's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the Plan member's base salary. Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

If an active Plan member dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving

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spouse, the Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average base salary at the time of death and the credited service that would have accrued had the Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

Disability Benefits

If a Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled Plan member receives normal retirement benefits.

Contributions

Plan Member Contributions

Plan members contribute 8.65% of their base salary as required by statute. The Plan member

contributions are deducted before federal tax is withheld. Eligible Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the Plan member or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability or funding surplus over a twenty-five year fixed period.

Administrative Costs

Administrative costs are financed through investment earnings.

Due To State of Alaska General Fund

Amounts due to the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

GASB Statements No. 25 and No. 26

Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that Plan net assets be split between pension and postemployment healthcare. To meet these requirements, Plan assets, liabilities, revenues, and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

Investments

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller—that is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on equity securities is accrued on the exdividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

In fiscal year 2005, Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* was implemented. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk, and concentration of credit risk.

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the midpoint between the bid and asked price or at prices for securities of comparable maturity, quality, and type. Money market funds are valued at amortized cost, which approximates fair value.

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Equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued at their current market or fair values on the last business day of each month by the Trustee.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investment in the other investments pool is valued quarterly by the general partner. The agricultural investments are valued quarterly by investment managers. Valuations are based on market conditions and knowledge of industry trends. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised once every three

years, in conjunction with the property's purchase anniversary date, by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the midpoint of representative quoted bid and asked prices.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2005 and 2004, the allowance for loan loss totaled \$28,904 and \$29,683, respectively and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

The cost of securities is determined on the average cost basis.

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant on a pro rata basis.

Income in the domestic fixed income pool, equity pools, international fixed income pool, and the high yield pool is credited daily to each participant on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments and real estate pools is credited to pool participants monthly on a pro rata basis.

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Contributions Receivable

Contributions from Plan members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

Reclassifications

Certain reclassifications not affecting changes in net assets held in trust for pension and postemployment healthcare benefits have been made to 2004 amounts in order to conform to the 2005 presentation.

(3) INVESTMENTS

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury), provides staff for the ASPIB. Treasury has created a pooled environment by which

it manages the investments the ASPIB has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ASPIB has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Short-Term Fixed Income Pool

The Plan participates in the State's internally managed short-term fixed income pool which was established March 15, 1993, with a start up and maintained share price of \$1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2005 and 2004, the Plan had a 0.03% direct ownership in the short-term fixed income pool which included interest receivable of \$7,098 and \$3,631, respectively. The Plan had a 1.58% and 3.45% indirect ownership in the short-term fixed income pool at June 30, 2005 and 2004, respectively.

Domestic Fixed Income Pool

The domestic fixed income pool is comprised of an internally managed and an externally managed pool.

Retirement Fixed Income Pool

The Plan participates in the ASPIB's internally managed retirement fixed income pool which

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was established March 1, 1996, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,848. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 32.08% and 32.39% ownership in the retirement fixed income pool, respectively.

External Domestic Fixed Income Pool

The Plan participates in the ASPIB's externally managed domestic fixed income pool which was established June 25, 1999, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,546. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.33% and 32.14% ownership in the external domestic fixed income pool, respectively.

International Fixed Income Pool

The Plan participates in the ASPIB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,790. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.68% and 32.17% ownership in the international fixed income pool, respectively.

High Yield Pool

The Plan participates in the ASPIB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,016. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 31.86% ownership in the high yield pool.

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Domestic Equity Pool

Effective July 1, 2004, the domestic equity pool was replaced with an external large cap domestic equity pool and an external small cap domestic equity pool. At June 30, 2004, the Plan had a 32.09% ownership in the domestic equity pool.

Large Cap Domestic Equity Pool

The Plan participates in the ASPIB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,050. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 31.61% ownership in the large cap domestic equity pool.

Small Cap Domestic Equity Pool

The Plan participates in the ASPIB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,019. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share

is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 31.64% ownership in the small cap domestic equity pool.

International Equity Pool

The Plan participates in the ASPIB's externally managed international equity pool which was established January 1, 1992, with a start up share price of \$1,000. The share price at June 30, 2005, was \$2,622. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.30% and 31.78% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The Plan participates in the ASPIB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,944. The pool participates in two externally managed commingled investment funds through ownership of equity

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shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 35.00% ownership in the emerging markets equity pool.

Private Equity Pool

The Plan participates in the ASPIB's externally managed private equity pool which was established April 24, 1998, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,365. Underlying assets in the pool are comprised of venture capital, buy-outs, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.85% and 32.32% ownership in the private equity pool, respectively.

Absolute Return Pool

The Plan participates in the ASPIB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,027. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 31.85% ownership in the absolute return pool.

Other Investments Pool

The Plan participates in the ASPIB's externally managed other investments pool which was established March 18, 2004, with a start up share price of \$1,000. The share price at June 30, 2005, was \$1,065. Underlying assets in the pool are comprised of limited partnership interests in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the

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valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.85% and 32.32% ownership in the other investments pool, respectively.

Real Estate Pool

The Plan participates in the ASPIB's externally managed real estate pool which was established June 27, 1997, with a start up share price of \$1,000. The share price at June 30, 2005, was \$2,104. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of

investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determine the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.64% and 31.80% ownership in the real estate pool, respectively.

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At June 30, 2005, the Plan's investments included the following:

	Fair Value (In thousands)					Total
	Short-term	Fixed Income Pools Domestic	International	High yield	Other	
Deposits	\$ -	-	3,078	-	1,405	4,483
Overnight Sweep Account	42	438	-	17,461	-	17,941
Money Market Fund	-	-	-	-	308,847	308,847
Short-term Investment Fund	-	-	1,038	-	10,356	11,394
Commercial Paper	2,336	4,319	-	-	-	6,655
U.S. Treasury Bills	1,831	-	-	-	-	1,831
U.S. Treasury Notes	1,590	48,100	-	-	-	49,690
U.S. Treasury Bonds	-	58,628	-	-	-	58,628
U.S. Treasury Strips	-	11,949	-	-	-	11,949
U.S. Government Agency Discount Notes	404	3,422	-	-	-	3,826
U.S. Government Agency Municipal Bonds	-	59,322	-	-	-	59,322
Foreign Government Bonds	-	454	-	-	-	454
Mortgage-backed	4,621	435,195	99,521	-	-	439,816
Other Asset-backed	12,960	52,868	-	127	-	65,955
Corporate Bonds	5,878	203,649	46,334	44,284	-	300,145
Convertible Bonds	-	-	-	676	-	676
Yankees:						
Government	-	4,501	-	-	-	4,501
Corporate	225	3,259	-	1,364	-	4,848
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	83,089	83,089
Equity	-	-	-	-	1,436,975	1,436,975
International Equity Pool:						
Convertible Bonds	-	-	-	-	144	144
Equity	-	-	-	-	603,648	603,648
Emerging Markets Equity Pool	-	-	-	-	72,200	72,200
Private Equity Pool:						
Limited Partnerships	-	-	-	-	177,452	177,452
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	98,417	98,417
Other Investments Pool:						
Limited Partnerships	-	-	-	-	7,056	7,056
Agricultural Holdings	-	-	-	-	7,788	7,788
Real Estate Pool:						
Real Estate	-	-	-	-	221,307	221,307
Commingled Funds	-	-	-	-	80,431	80,431
Limited Partnerships	-	-	-	-	48,734	48,734
Real Estate Investment Trusts	-	-	-	-	35,631	35,631
Mortgages	-	-	-	-	48	48
Net Other Assets (Liabilities)	308	7,684	(766)	814	3,707	11,747
Ownership by Other Pools	(29,610)	11,972	-	-	17,638	-
Invested assets	<u>\$ 585</u>	<u>905,760</u>	<u>149,205</u>	<u>64,726</u>	<u>3,214,873</u>	<u>4,335,149</u>

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to $\pm 20\%$ of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2005, was 4.16 years.

Through the ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting

the effective duration of the international fixed income portfolio to $\pm 25\%$ of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2005, was 6.09 years.

Through the ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to $\pm 20\%$ of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2005, was 4.58 years. The high yield pool was funded April 15, 2005. Investment managers were in the transition period at year end working towards fully investing allocated funds. Funds not invested at year end have no duration causing the pool's duration to be lower than the policy limit.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options, and other variable cash flows for purposes of the effective duration calculation.

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At June 30, 2005, the effective duration of the fixed income pools, by investment type, was as follows:

	Effective duration (In years)		
	<u>Domestic</u>	<u>International</u>	<u>High yield</u>
U.S. Treasury Notes	3.27	-	-
U.S. Treasury Bonds	10.10	-	-
U.S. Treasury Strips	17.29	-	-
U.S. Government Agency	5.69	-	-
Municipal Bonds	13.95	-	-
Foreign Government Bonds	-	5.59	-
Mortgage-Backed	2.50	-	-
Other Asset-Backed	1.19	-	5.28
Corporate Bonds	5.27	4.17	3.59
Convertible Bonds	-	-	4.54
Yankees:			
Government	6.98	-	-
Corporate	7.68	-	4.43
Portfolio effective duration	3.99	5.00	2.64

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Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, short-term fixed income pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The ASPIB's investment policy has the following limitations with regard to credit risk:

Domestic fixed income:

Commercial paper must carry a rating of at least A1 or equivalent;

Corporate debt securities must be investment grade;

Corporate, asset-backed and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's

and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

International fixed income:

Corporate debt and asset-backed securities must be investment grade.

Domestic and international equity:

Corporate debt obligations must carry a rating of at least A or equivalent.

High yield:

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, ASPIB does not consider this investment subject to the credit risk limitations above.

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At June 30, 2005, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

	Rating ¹	Fixed Income Pool				International
		Short-term	Domestic	International	High Yield	Equity
Overnight Sweep Account	Not Rated	-%	-%	-%	27%	-%
Short-term Investment Account	Not Rated	-	-	1	-	1
Commercial Paper	A	8	1	-	-	-
U.S. Government Agency						
Discount Notes	Not Rated	1	-	-	-	-
U.S. Government Agency	Not Rated	-	6	-	-	-
Foreign Government	AAA	-	-	53	-	-
Foreign Government	AA	-	-	9	-	-
Foreign Government	A	-	-	5	-	-
Mortgage-backed	AAA	15	13	-	-	-
Mortgage-backed (Agency)	Not Rated	-	34	-	-	-
Other Asset-backed	AAA	39	6	-	-	-
Other Asset-backed	A	3	-	-	-	-
Corporate Bonds	AAA	1	3	24	-	-
Corporate Bonds	AA	11	3	7	-	-
Corporate Bonds	A	9	7	-	-	-
Corporate Bonds	BBB	-	10	-	1	-
Corporate Bonds	BB	-	-	-	17	-
Corporate Bonds	B	-	-	-	43	-
Corporate Bonds	CCC	-	-	-	8	-
Convertible Bonds	B	-	-	-	1	-
Yankees:						
Government	BBB	-	1	-	-	-
Corporate	A	1	-	-	-	-
Corporate	BB	-	-	-	1	-
Corporate	B	-	-	-	1	-
No credit exposure		<u>12</u>	<u>16</u>	<u>1</u>	<u>1</u>	<u>99</u>
		<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

¹ - Rating modifiers are not disclosed.

Securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

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Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ASPIB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2005, the Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International fixed income pool	\$ 3,078
International equity pool	<u>1,374</u>
	<u>\$ 4,452</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The ASPIB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, the ASPIB's asset allocation policy permits the Plan to hold up to 4% of total investments in international fixed income.

The ASPIB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the Plan to hold up to 18% of total investments in these two pools combined.

The ASPIB's policy with regard to foreign currency risk in the private equity pool is to permit the Plan to hold up to 10% of total investments in private equity.

At June 30, 2005, the Plan had exposure to foreign currency risk with the following deposits:

Currency	Amount (In thousands)	
	International fixed income pool	International equity pool
Australian Dollar	\$ 32	11
Canadian Dollar	-	9
Danish Krone	-	58
Euro Currency	-	205
Hong Kong Dollar	-	79
Japanese Yen	3,046	544
New Zealand Dollar	-	1
Norwegian Krone	-	115
Pound Sterling	-	107
Singapore Dollar	-	1
Swiss Franc	<u>-</u>	<u>2</u>
	<u>\$3,078</u>	<u>1,132</u>

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At June 30, 2005, the Plan had exposure to foreign currency risk with the following investments:

<u>Currency</u>	Amount (In thousands)				
	<u>International fixed income pool</u>		<u>International equity pool</u>		<u>Private equity pool</u>
	<u>Foreign government</u>	<u>Corporate</u>	<u>Convertible bonds</u>	<u>Equity</u>	<u>Limited partnerships</u>
Australian Dollar	\$ -	-	-	10,121	-
Canadian Dollar	-	-	-	9,437	-
Danish Krone	-	-	-	1,316	-
Euro Currency	-	-	-	226,660	18,315
Hong Kong Dollar	-	-	-	6,180	-
Japanese Yen	13,063	46,334	-	122,839	-
New Zealand Dollar	-	-	-	2,277	-
Norwegian Krone	-	-	-	5,811	-
Polish Zloty	7,933	-	-	-	-
Pound Sterling	-	-	-	120,045	394
Singapore Dollar	-	-	-	8,496	-
South African Rand	-	-	-	2,162	-
South Korean Won	-	-	-	4,497	-
Swedish Krona	78,525	-	-	5,308	-
Swiss Franc	-	-	144	49,913	-
	<u>\$ 99,521</u>	<u>46,334</u>	<u>144</u>	<u>575,062</u>	<u>18,709</u>

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At June 30, 2005, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Treasury's policy with regard to concentration of credit risk for the short-term fixed income pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ASPIB's policy with regard to concentration of credit risk for the domestic fixed income, international fixed income, and high yield pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2005, the Plan's investments included \$279.6 million in Federal National Mortgage Association securities which represented 6% of Plan total assets.

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The cost and fair value of the Plan's investments at June 30 are as follows (in thousands):

	<u>Cost</u>	<u>Fair Value</u>
2005:		
Domestic equity pool	\$ 1,303,618	1,540,570
Domestic fixed income	895,168	905,760
International equity pool	617,677	615,743
Real estate pool	341,377	386,709
International fixed income pool	140,437	149,205
Private equity pool	201,686	177,495
Emerging markets equity pool	50,413	72,200
Other investments pool	14,556	14,844
High yield pool	64,411	64,726
Absolute return pool	<u>95,368</u>	<u>98,417</u>
	<u>\$ 3,724,711</u>	<u>4,025,669</u>
2004:		
Domestic equity pool	\$ 1,312,303	1,575,444
Domestic fixed income pool	1,072,905	1,066,375
International equity pool	635,851	642,589
Real estate pool	274,496	295,894
International fixed income pool	131,003	142,129
Private equity pool	157,949	128,571
Emerging markets equity pool	49,910	53,407
Other investments pool	<u>3,878</u>	<u>3,897</u>
	<u>\$ 3,638,295</u>	<u>3,908,306</u>

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The Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Domestic equity pool	\$ 43,980	254,386
Domestic fixed income pool	21,870	(42,413)
International equity pool	65,507	154,034
Real estate pool	35,828	5,240
International fixed income pool	8,244	3,781
Private equity pool	20,769	19,266
Emerging markets equity pool	18,289	12,689
Other investments pool	270	19
Absolute return pool	3,066	-
High yield	280	-
	<u>\$ 218,103</u>	<u>407,002</u>

(4) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The international fixed income and international equity pool's investment income includes the following at June 30:

	<u>2005</u>	<u>2004</u>
Realized gain on foreign currency	\$57,329,781	41,966,731
Unrealized gain (loss) on foreign currency	(12,800)	9,174
Realized gain (loss) on foreign exchange contracts	(106,656)	38,950

The international equity pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from eight to one hundred and twenty-four days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	<u>2005</u>	<u>2004</u>
Net contract sales	\$3,047,799	2,412,498
Less fair value	<u>2,915,950</u>	<u>2,571,117</u>
Net unrealized gains (losses)	<u>\$ 131,849</u>	<u>(158,619)</u>

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The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(5) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the ASPIB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ASPIB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the ASPIB's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2005 and 2004, the fair value of securities on loan allocable to the Plan totaled \$300,770,734 and \$459,195,625, respectively. There is no limit to the amount that can be loaned and the ASPIB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost, which approximates fair value. Maturities

of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral may be pledged or sold upon borrower default. Since the ASPIB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral, and cash collateral payable are recorded on the financial statements. The Bank, the Plan, and the borrower receive a fee from earnings on invested collateral. The Bank and the Plan share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the ASPIB is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ASPIB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest, or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2005 and 2004, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(6) TRANSFER TO RETIREMENT SYSTEMS

During fiscal year 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund. An analysis was conducted which considered: (1) the medical portion of net assets

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held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount was then moved back to the respective retirement system. There is an earnings differential on invested assets between the base trust fund and the Plan. Earnings on such excess reserves should remain with the base retirement trust. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Based on this review, the Plan received \$6,200,000 in fiscal year 2004 from the Retiree Health Fund.

(7) COMMITMENTS AND CONTINGENCIES

Commitments

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2005, the Plan's participant share of the unfunded commitment totaled \$48,993,175. This commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled \$225,369,315. Ninety-four percent of this commitment is estimated to be paid through the year

2010. Six percent of this commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2005, the Plan's participant share of this unfunded commitment totaled \$18,599,699 to be paid through the year 2007.

The ASPIB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled \$109,881,612 to be paid through the year 2010.

Contingencies

The State was a defendant in a lawsuit filed by the Alaska Civil Liberties Union and a number of same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependants, thus excluding coverage for domestic partners of employees. An adverse ruling against the State was issued on October 28, 2005. The effect of this ruling will increase the number of persons covered by insurance paid by the Plan. The court ruling states that the Plan's current benefit program will remain in effect until the issue of remedies is resolved. The potential effect of this ruling cannot be reasonably estimated until the issue of remedies is resolved. As such, the Plan has not recorded the financial impact of this ruling. The costs associated with this ruling will be passed through to employers through the normal contribution process.

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The State and/or the Plan are defendants in the following lawsuits. The Plan has not recorded an accrual related to any of the lawsuits, because an unfavorable outcome in these matters is, in management's opinion, not considered probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. The Superior Court granted summary judgment in favor of the plaintiffs on the issue of liability, and the Alaska Supreme Court granted the Plan's petition for

review. Following briefing and argument, the Supreme Court reversed the Superior Court and remanded for further proceedings. This issue is now pending in the Superior Court for a determination of the matter in accordance with the Supreme Court's instructions.

The State is a defendant in a class action lawsuit involving a constitutional challenge to Plan statutes that provide a 10% cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of nonresident benefit recipients, and therefore, the 10% COLA should be paid to all benefit recipients, regardless of residence. The class action lawsuit will be submitted to the Alaska Supreme Court to consider the constitutionality of the COLA statutes and how they are applied.

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**Required Supplementary Information
(Unaudited)**

**Schedule of Funding Progress
Pension Benefits**

**June 30, 2005 and 2004
(000's omitted)**

<u>Actuarial valuation year ended June 30</u>	<u>Actuarial value of plan assets</u>	<u>Actuarial accrued liabilities (AAL)</u>	<u>Funding Excess (FE) (Unfunded actuarial accrued liabilities) (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>FE/(UAAL) as a percentage of covered payroll</u>
1998	\$ 2,825,528	2,893,325	(67,797)	97.7%	469,433	(14.4%)
1999	3,120,951	3,043,509	77,442	102.5	466,414	16.6
2000	3,338,700	3,350,552	(11,852)	99.6	482,571	(2.5)
2001	3,468,310	3,651,488	(183,178)	95.0	496,188	(36.9)
2002	2,699,445	3,959,958	(1,260,513)	68.2	509,437	(247.4)
2003	2,694,785	4,190,970	(1,496,185)	64.3	532,630	(280.9)

See accompanying notes to required supplementary information and independent auditors' report.

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**Required Supplementary Information
(Unaudited)**

**Schedule of Funding Progress
Postemployment Healthcare Benefits**

**June 30, 2005 and 2004
(000's omitted)**

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE) (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	\$ 620,542	635,432	(14,890)	97.7%	469,433	(3.2%)
1999	694,682	677,445	17,237	102.5	466,414	3.7
2000	845,315	848,316	(3,001)	99.6	482,571	(0.6)
2001	903,919	951,659	(47,740)	95.0	496,188	(9.6)
2002	989,591	1,451,684	(462,093)	68.2	509,437	(90.7)
2003	1,057,500	1,644,639	(587,139)	64.3	532,630	(110.2)

See accompanying notes to required supplementary information and independent auditors' report.

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**Required Supplementary Information
(Unaudited)**

**Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits**

**June 30, 2005 and 2004
(000's omitted)**

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1999	\$ 44,142	9,759	53,901	114%	114%	114%
2000	55,448	12,426	67,874	92	92	92
2001	46,067	10,324	56,391	114	114	114
2002	32,331	7,245	39,576	155	155	155
2003	37,800	9,570	47,370	133	133	133
2004	65,571	17,089	82,660	83	83	83
2005	152,168	55,783	207,951	45	45	45

See accompanying notes to required supplementary information and independent auditors' report.

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**Notes to Required Supplementary Information
(Unaudited)**

June 30, 2005 and 2004

(1) Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) Actuarial Assumptions and Methods

The actuarial valuation is prepared by Mercer Human Resource Consulting. The significant actuarial assumptions used in the valuation as of June 30, 2003, are as follows:

- (a) Actuarial cost method—projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a twenty-five year fixed period level percentage of pay.
- (b) Mortality—1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. All deaths are assumed to result from nonoccupational causes.

- (c) Retirement—retirement rates based on the 1997-1999 actual experience.

- (d) Investment return—8.25% per year, compounded annually, net of expenses.

- (e) Health cost trend—

Fiscal Year	
2005	12.0%
2006	11.5
2007	11.0
2008	10.5
2009	10.0
2010	9.5
2011	9.0
2012	8.5
2013	8.0
2014	7.5
2015	7.0
2016	6.0
2017 and later	5.0

- (f) Salary scale—inflation 3.5% per year, productivity 0.5% per year, merit (first five years of employment) 1.5% per year.

- (g) Total inflation—total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

- (h) Cost of living allowance (domicile in Alaska)—65% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

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- (i) Contribution refunds—100% of those terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- (j) Total turnover—select and ultimate rates based upon the 1997-1999 actual withdrawal experience.
- (k) Disability—incidence rates based upon the 1991-1995 actual experience. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.
- (l) Asset valuation method—recognize 20% of the investment gains and losses in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.
- (m) Valuation of medical benefits for retirees—a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.
- (n) Spouse's age—wives are assumed to be four years younger than husbands.
- (o) Dependent children—benefits to dependent children have been valued assuming members who are not single have one dependent child.
- (p) New entrants—growth projections are made for active TRS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year
- (q) Sick leave—4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.
- (r) Post-retirement pension adjustment—50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.
- (s) Part-time status—part-time employees are assumed to earn 0.550 years of credited service per year.
- (t) Expenses—expenses are covered in the investment return assumption.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial

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**Notes to Required Supplementary Information
(Unaudited)**

June 30, 2005 and 2004

assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions, and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective June 30, 2000, the following changes were made:

- There was a change in the economic actuarial assumption. The total inflation assumption was changed from 4% to 3.5% annually. This affected the economic assumptions, including salary scale and health cost trend.
- The retirement assumptions were revised based on actual experience in 1997-1999.
- The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.
- The cost of living allowance was increased from 62% to 65% participation.
- For the June 30, 2000, actuarial valuation, data as of June 30, 1999, was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent three valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

- The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.
- The health cost trend assumptions were changed from an ultimate rate of 5.5% per annum to the following:

Fiscal year:

2001	7.5%
2002	6.5
2003	5.5
2004-2008	5.0
2009-2013	4.5
Thereafter	4.0

Effective June 30, 2002, the following changes were made:

- The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.
- Part-time employees are assumed to earn 0.550 years of credited service per year.
- The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.

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June 30, 2005 and 2004

The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and proceeding four years and will be phased in over the next five years.

Effective June 30, 2003, the following changes were made:

- Members currently under age fifty who have already attained twenty-one years of service are assumed to retire one year following the valuation date.

(3) Enhanced Actuarial Projection System

The Plan's actuary, at the request of the Teachers' Retirement Board, uses an enhanced actuarial projection system to determine annual

employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns, and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1998 and 2000 employer contributions being less than the annual required contribution and 1999 and 2001-2003 employer contributions being more than the annual required contribution.

STATE OF ALASKA
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(A Component Unit of the State of Alaska)
Schedule of Administrative and Investment Expenses
Year ended June 30, 2005
with comparative totals for 2004
(000's omitted)

	<u>Administrative</u>	<u>Investment</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
Personal services:				
Wages	\$ 886	436	1,322	1,299
Benefits	<u>381</u>	<u>158</u>	<u>539</u>	<u>503</u>
Total personal services	<u>1,267</u>	<u>594</u>	<u>1,861</u>	<u>1,802</u>
Travel:				
Transportation	31	44	75	48
Per diem	7	6	13	40
Moving	-	11	11	-
Honorarium	<u>10</u>	<u>12</u>	<u>22</u>	<u>26</u>
Total travel	<u>48</u>	<u>73</u>	<u>121</u>	<u>114</u>
Contractual services:				
Management and consulting	282	7,988	8,270	8,319
Accounting and auditing	19	407	426	411
Other professional services	-	-	-	160
Advertising and printing	33	1	34	164
Data processing	161	133	294	138
Communications	36	17	53	162
Rentals/leases	69	13	82	111
Legal	35	50	85	101
Medical specialists	6	-	6	1
Repairs and maintenance	2	5	7	6
Transportation	1	1	2	2
Other services	37	22	59	13
Securities lending	<u>-</u>	<u>6,214</u>	<u>6,214</u>	<u>3,578</u>
Total contractual services	<u>681</u>	<u>14,851</u>	<u>15,532</u>	<u>13,166</u>
Other:				
Equipment	17	9	26	6
Supplies	<u>16</u>	<u>25</u>	<u>41</u>	<u>40</u>
Total other	<u>33</u>	<u>34</u>	<u>67</u>	<u>46</u>
Total administrative and investment expenses	<u>\$ 2,029</u>	<u>15,552</u>	<u>17,581</u>	<u>15,128</u>

See accompanying independent auditors' report.

Schedule 2

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)**

**Schedule of Payments to Consultants
Other than Investment Advisors**

**Years ended June 30, 2005 and 2004
(000's omitted)**

Firm	Services	2005	2004
State Street Corporation	Custodian banking services	\$ 476	460
Systems Central Services Inc.	Data processing consultants	137	124
Mercer Human Resource Consulting	Actuarial services	211	185
KPMG LLP	Auditing services	34	22
State of Alaska, Department of Law	Legal services	39	59
Wohlforth, Johnson, Brecht, Cartledge & Brooking	TRS Board legal services	-	6
		<u>\$ 897</u>	<u>856</u>

See accompanying independent auditors' report.

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